



County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA
Chief Executive Officer

May 11, 2010

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
Los Angeles, California 90012

Dear Supervisors:

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

**SHERIFF DEPARTMENT:
APPROVE THE PURCHASE OF UP TO FOURTEEN EUROCOPTER AS350B2
HELICOPTERS, ANCILLARY EQUIPMENT AND SERVICES FOR THE SHERIFF'S
DEPARTMENT, AND APPROVE RELATED FINANCING PLAN
(ALL DISTRICTS) (3 VOTES)**

SUBJECT

Approval of the recommended actions will authorize the Internal Services Department (ISD) to proceed with the purchase of 12 AS350B2 helicopters with an option to purchase an additional two helicopters from American Eurocopter Corporation (AEC) for the Los Angeles County Sheriff's Department (Department) Aero Bureau; authorize the Chief Executive Office (CEO) and ISD to obtain a tax-exempt financing lease for ten of the helicopters; and authorize the Sheriff's Department and ISD to proceed with the sale of the Sheriff's existing 12 AS350B2 helicopters.

JOINT RECOMMENDATION WITH THE SHERIFF'S DEPARTMENT THAT YOUR BOARD:

1. Authorize the County Purchasing Agent to proceed with the acquisition process for the Sheriff's Department, and enter into a purchase agreement with American Eurocopter Corporation to acquire 12 AS350B2 helicopters with an option to purchase additional two new helicopters, with an aggregate acquisition cost of approximately \$27.6 million, including taxes. This action will authorize the replacement of 12 existing helicopters, which have exceeded their optimal life span and expand the fleet by two helicopters to provide for increases in service requirements. This purchase request exceeds the \$250,000 fixed asset threshold established by your Board and requires your approval.

"To Enrich Lives Through Effective And Caring Service"

***Please Conserve Paper – This Document and Copies are Two-Sided
Intra-County Correspondence Sent Electronically Only***

2. Authorize the Sheriff's Department to execute work orders under the Sheriff's Department's Model Agreement 245SH for helicopter maintenance and engineering services to secure low bid pricing for the completion/outfitting of the newly acquired helicopters. The estimated maximum cost for completion services is \$2.1 million per helicopter, including tax, or \$29.2 million total for all 14 AS350B2 helicopters.
3. Authorize the County Purchasing Agent, the Sheriff's Department, and Chief Executive Office to complete and execute all necessary purchasing documents related to the acquisition of up to 14 new AS350B2 helicopters.
4. Authorize the County Purchasing Agent and Chief Executive Office to obtain \$40.5 million in tax-exempt, lease financing to pay for ten of the 14 new helicopters and completion work through a competitive bid process at an interest rate not to exceed six percent, with a principal amortization that does not exceed seven years, and to execute an escrow agreement and the required lease financing documents to complete the transaction.
5. Authorize the Sheriff's Department and Internal Services Department to proceed with the sale of the existing fleet of 12 AS350B2 helicopters and use the proceeds to offset \$16.2 million in costs for the purchase of the final four new helicopters and completion work.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Approval of the recommended actions will allow the Department to complete the replacement of its existing patrol helicopters that are aging and becoming extremely expensive to maintain, and expand the fleet by two helicopters to maintain minimum service levels throughout the County. The maintenance costs of the present fleet continue to increase significantly each year. The specialized equipment installed on the present fleet has reached the end of its useful life, both from a repair and technological point of view. The new helicopters will lower the maintenance costs and reduce out-of-service time.

The expansion from the present fleet of 12 helicopters to 14 is necessitated by a critical need to meet the Department's minimum deployment level of ten aircraft per day. The minimum deployment level is designed to provide support to ground-based patrol units, and is based primarily on field deputy and community safety needs. As many as three helicopters are always undergoing scheduled maintenance. As such, the Department is currently unable to meet its minimum deployment level. Two additional helicopters will greatly reduce maintenance-related downtime, and enhance the Department's ability to

meet the critical minimum deployment level and better ensure safety of the Department personnel and the community.

Background

Referenced in the Board letter approved by your Board on August 27, 2002, the Department initiated a helicopter replacement program in 1978 designed to replace and upgrade the helicopter fleet at prescribed intervals similar to its vehicle fleet replacement schedules. These intervals are based on each aircraft's age, accumulated flight hours, and continued applicability to the Department's law enforcement mission. A general guideline that is currently endorsed by the aviation industry and the Department specifies 7,000 flight hours and/or seven years of operation as a threshold for helicopter replacement.

In August 2002, the Department presented to your Board the need for maintaining a seven-year replacement cycle for the then newly-purchased Eurocopter AS350B2 helicopter fleet. The Department has reached the end of the seven-year replacement cycle for the existing fleet of 12 AS350B2 helicopters.

Existing Fleet

On August 27, 2002, your Board approved the execution of the first of two purchase agreements between the County and AEC to acquire six AS350B2 helicopters, and ancillary equipment and services, at a purchase cost of \$14.2 million. Financing was secured from Citicorp Real Estate (Citicorp) through a competitive bidding process directed by ISD and the CEO for a seven-year term. On May 20, 2003, your Board approved the Department's execution of an option to purchase an additional six AS350B2 helicopters, and ancillary equipment and services, from AEC, at a purchase cost of \$14.5 million.

The 12 AS350B2 helicopters have been serving the Department's patrol operational needs since 2003.

Proposed Helicopters Acquisition

With your Board's approval of the recommended actions, the formal County purchasing process will be initiated for the acquisition and completion of 12 replacement helicopters and two additional helicopters. The delivery of 14 AS350B2 helicopters will be spread over a period of approximately eight months. This will ensure that the helicopter fleet will be serviced at staggered intervals thereby minimizing the operational burden on the Department's Aero Bureau to meet minimum deployment requirements.

The Department is scheduled to take delivery of the first replacement helicopter approximately two months after your Board's approval. Each of the remaining 13 helicopters will be delivered in intervals of approximately 15-30 days thereafter. A delivery schedule is included in Attachment I. Financing with a third party lender for the ten helicopters will be secured prior to the delivery of the first helicopter. The costs of the remaining four helicopters are expected to be offset by proceeds from the sale of the existing fleet. The Department received multiple appraisals for its existing fleet. Based on these appraisals, the conservative estimate of the sales proceeds is \$16.5 million, which is sufficient to fund the \$16.2 million for the last four helicopters. The option to purchase the additional two helicopters may be executed until December 2010. Results from sales of existing helicopters solicitations should be available prior to that date, which will provide confirmation that sufficient revenue will be realized to fund the last four non-financed helicopters.

Completion services for all 14 of the new helicopters will be awarded to the lowest responsive and responsible completion center through a competitive bid process under the authority of the Department's helicopter maintenance and engineering model agreement for helicopter services that your Board approved on November 9, 2005. This process was reviewed by ISD in December 2009. Immediately following purchase, the helicopters will be sent to the selected completion center to be outfitted with critical navigation and law enforcement technologies.

The Department, through the County Purchasing Agent, will coordinate the sale of the existing fleet of 12 helicopters on a schedule which will match the delivery schedule of the new helicopters. ISD will process the existing 12 helicopters on a for-sale bid. As the helicopters are sold, they will be released to the winning bidders singly, or in four phases, in lots of three each, which ever best serves the needs of the County. Existing helicopters will be released as the new helicopters become operational. The proposed release schedule of the existing fleet is included in Attachment II.

Implementation of Strategic Plan Goals

This purchase supports the County Strategic Plan Goals of Operational Effectiveness (Goal 1), by enhancing the safety and productivity of the Department's helicopter patrol services.

FISCAL IMPACT/FINANCING

The Department was successful in negotiating a firm fixed-price of \$1,794,225, plus tax for each of the 14 helicopters from AEC. The completion work for each helicopter will be finalized following completion of the bid process. The estimated completion cost for each helicopter is \$1.9 million. The combined total acquisition cost for each helicopter

is projected to be approximately \$4.1 million, including tax. The acquisition cost of the first ten helicopters totaling up to \$40.5 million will be financed by a third party lender with a seven-year principal amortization for each helicopter, at a not-to-exceed interest rate of 6 percent. The annual financing requirement for the ten financed helicopters is estimated at 7.1 million. The first lease payments will start in FY 2010-11. A summary of the projected payment schedule for the replacement fleet is provided in Attachment III. If we are not able to complete the financing of the ten helicopters within the total annual lease payment limit of \$7.1 million, we will return to your Board with an alternative funding solution.

The remaining four helicopters (\$16.2 million) will be funded by the sale proceeds of the existing fleet. Based on independent valuations, the total proceeds from the sale are estimated to be \$16.5 million (Attachment II), which is sufficient to fund the final two replacement helicopters and the two additional helicopters. The County will have bid results, for the sale of its existing fleet, prior to December 2010, which is the deadline for exercising the purchase option for the last two helicopters. To the extent that proceeds do not fully cover the costs of all non-financed helicopters costs (\$16.2 million), the shortfall will be funded by the Department's Narcotic Enforcement Fund.

The total cost for the acquisition of 14 new AS350B2 helicopters is approximately \$56.8 million including tax. Acquisition costs will be funded through a combination of proceeds (\$16.5 million) from the sale of existing 12 AS350B2 helicopters and lease-purchase financing (\$40.5 million)

The sales of the existing fleet will take place through one bid auction conducted by ISD after your Board's approval. Proceeds from the sale of the existing aircraft will be deposited into the Department's Trust account and budgeted as revenue in the Department's FY 2010-11 operating budget. The use of this revenue will be restricted to payments associated with the recommended transaction, including but not limited to payments for the last four new helicopters, lease payments and prepayments.

Operating Budget Impact

Existing fleet financing requirement was \$28.8 million with annual lease payment of \$4.7 million. The lease requirements for the new fleet are estimated to be \$40.5 million over eight years with a maximum annual obligation of \$7.1 million based on the not-to-exceed six percent interest rate. The potential \$2.4 million increase in annual lease payments is a result of an increase in the purchase price for each helicopter, as well as a higher interest and sales tax rates. The potential \$2.4 million increase in annual lease payment will be offset by the Department's Narcotics Enforcement Fund.

A summary of the projected payment schedule for the new fleet and annual maintenance costs is provided in Attachment III.

In terms of overall FY 2009-10 costs, the Department will incur \$3.5 million for lease payments and \$5.2 million for maintenance costs on its existing fleet. As shown on Attachment III, projected maintenance cost would not exceed the current level of maintenance cost until FY 2017-18. The Department will work with CEO to identify any additional funds that are necessary in future fiscal years. Sufficient funding for the maintenance costs and lease payments is included in the Department's FY 2009-10 operation budget. In May 2003, your Board approved \$2.5 million in the Narcotic Enforcement Fund to fund a portion of helicopter lease costs. The Department will request an additional annual appropriation of \$2.4 million from the Narcotic Enforcement Fund to offset the increase in annual helicopter lease payments from the existing level of \$4.7 million. Although the full amount will not be needed until after FY 2011-12, a fraction will be needed in FY 2010-11. The table below summarizes the Sheriff's budgetary requirements with respect to the proposed transactions.

Available Lease Funding Summary

Existing General Fund Allocation for Helicopters Leases	\$ 2,200,000
Existing Narcotic Enforcement Fund Allocation for Helicopters Lease	\$ 2,500,000
<u>Additional Narcotic Enforcement Fund Allocation for Helicopters Lease</u>	<u>\$ 2,410,000</u>
Total Available Annual Lease Funding	\$ 7,110,000

Competitive Bid Financing

Approval of the recommended actions will authorize ISD, with the assistance of the CEO, to obtain lease-purchase financing with a term of seven years and an interest rate that does not exceed six percent through a competitive bid process. The CEO and ISD will report the results of the competitive lease process and provide final payment schedules to your Board via a joint memorandum.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

In 2001 and 2002, the Department evaluated a number of potential helicopter platforms under the guidance of ISD. After an extensive evaluation period, it was decided that the American Eurocopter AS350B2 provided the County with the optimal performance platform, both operationally and financially.

Since that time, the Department has invested thousands of hours into pilot training and technical training for County aviation maintenance personnel. All Aero Bureau pilots are currently certified to fly the AS350B2. All Aero Bureau mechanics and technicians are certified to work on the AS350B2. In addition, the Department currently maintains an inventory of AS350B2 tools, components, parts, and accessories valued at over \$4.4 million.

On November 9, 2005, your Board authorized the Department to enter into multiple agreements for helicopter maintenance, repair, and engineering services. Eighteen of the 20 contractors currently under the authority of this model agreement have demonstrated their qualifications and certifications to work on various components of the AS350B2 helicopter. The agreements collectively expire in May 2011.

The Department, in consultation with the County's Purchasing Agent, agrees that moving forward with the purchase of the new AS350B2 platform as provided exclusively by AEC is the most fiscally prudent decision for the County.

PURCHASING PROCESS

This is a commodity purchase under the statutory authority of the County Purchasing Agent. The purchase will be requisitioned through, and accomplished by, the Purchasing Agent in accordance with the County's Purchasing policies and procedures established by ISD.

IMPACT ON CURRENT SERVICES

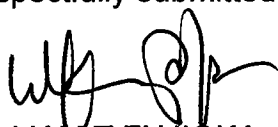
The helicopter purchase now before your Board will complete the replacement and enhancement of the Department's existing patrol and surveillance fleet. The new aircraft will provide upgraded operational capabilities to meet current and anticipated future mission requirements.

The Honorable Board of Supervisors
May 11, 2010
Page 8

CONCLUSION

Please return one adopted copy of this letter to the Chief Executive Office, Capital Projects Division; Sheriff's Department; and the Internal Services Department.

Respectfully submitted,


WILLIAM T FUJIOKA
Chief Executive Officer


LEROY D. BACA
Sheriff

WTF:LB:SK
DJT:CV:zu

Attachments

c: Executive Office, Board of Supervisors
 County Counsel
 Internal Services Department
 Sheriff Department

May 11, 2010

ATTACHMENT I

New Aircraft Fleet Delivery Schedule

Number of Helicopters Ordered	Date Green Aircraft Delivery	Cost of Green Aircraft (includes Tax)	Date Completed Aircraft Received	Approx Cost of Completed Aircraft	Total Cost	Funding
1	6/30/2010	1,969,161.94	11/16/2010	2,085,250.00	4,054,411.94	Financing
2	7/14/2010	1,969,161.94	11/16/2010	2,085,250.00	4,054,411.94	Financing
3	8/1/2010	1,969,161.94	11/30/2010	2,085,250.00	4,054,411.94	Financing
4	8/16/2010	1,969,161.94	11/30/2010	2,085,250.00	4,054,411.94	Financing
5	8/31/2010	1,969,161.94	12/1/2010	2,085,250.00	4,054,411.94	Financing
6	9/14/2010	1,969,161.94	12/15/2010	2,085,250.00	4,054,411.94	Financing
7	10/1/2010	1,969,161.94	1/2/2011	2,085,250.00	4,054,411.94	Financing
8	10/14/2010	1,969,161.94	1/14/2011	2,085,250.00	4,054,411.94	Financing
9	10/29/2010	1,969,161.94	1/31/2011	2,085,250.00	4,054,411.94	Financing
10	11/15/2010	1,969,161.94	2/16/2011	2,085,250.00	4,054,411.94	Financing
11	12/1/2010	1,969,161.94	3/1/2011	2,085,250.00	4,054,411.94	Cash
12	1/3/2011	1,969,161.94	4/1/2011	2,085,250.00	4,054,411.94	Cash
13	2/1/2011	1,969,161.94	5/2/2011	2,085,250.00	4,054,411.94	Cash
14	3/1/2011	1,969,161.94	6/1/2011	2,085,250.00	4,054,411.94	Cash
Total Cost Including Tax:		27,568,267.13		29,193,500.00	56,761,767.13	
Total financed purchase:		19,691,619.38		20,852,500.00	40,544,119.38	
Total non-financed purchase:		7,876,647.75		8,341,000.00	16,217,647.75	

Notes:

1. Cost of each Green Aircraft is \$1,794,225 plus CA sales tax (9.75%)
2. Cost to complete each Aircraft is approximately \$1,900,000 plus CA sales tax (9.75%)
3. Helicopters 11 to 14 will be funded by revenue from sale of existing helicopters

May 11, 2010

ATTACHMENT II

Sale of Existing Fleet

Number of Aircraft Sold	Anticipated Release Date To Buyers	Serial Number	Median Price Reduced by 15%	
3	12/1/2010	3501	\$1,317,500.00	\$3,995,000.00
		3516	\$1,317,500.00	
		3517	\$1,360,000.00	
3	12/15/2010	3579	\$1,402,500.00	\$4,122,500.00
		3529	\$1,402,500.00	
		3626	\$1,317,500.00	
3	1/30/2011	3637	\$1,317,500.00	\$4,080,000.00
		3678	\$1,445,000.00	
		3757	\$1,317,500.00	
3	4/1/2011	3760	\$1,487,500.00	\$4,292,500.00
		3747	\$1,317,500.00	
		3771	\$1,487,500.00	
Total Proceeds from Sale:				\$16,490,000.00

May 11, 2010

ATTACHMENT III

Projected Payment Schedule for Helicopter Financing

Fiscal Year	Existing Fleet - 12 Helicopters			New Fleet - 14 Helicopters		Total Lease Payments	Total Maintenance Costs	Grand Total
	Lease 1 Annual Payment	Lease 2 Annual Payment	Annual Maintenance Costs	Projected Annual Lease Payment	Projected Annual Maintenance			
09-10	\$1,158,000	\$2,356,000	\$5,153,000			\$3,514,000.00	\$5,153,000.00	\$8,667,000.00
10-11		\$1,178,000	\$1,648,742	\$3,562,401.26	\$93,333.33	\$4,740,401.26	\$1,742,075.33	\$6,482,476.59
11-12				\$7,107,491.72	\$175,000.00	\$7,107,491.72	\$175,000.00	\$7,282,491.72
12-13				\$7,107,491.72	\$1,954,166.67	\$7,107,491.72	\$1,954,166.67	\$9,061,658.39
13-14				\$7,107,491.72	\$2,275,000.00	\$7,107,491.72	\$2,275,000.00	\$9,382,491.72
14-15				\$7,107,491.72	\$2,846,666.67	\$7,107,491.72	\$2,846,666.67	\$9,954,158.39
15-16				\$7,107,491.72	\$3,500,000.00	\$7,107,491.72	\$3,500,000.00	\$10,607,491.72
16-17				\$7,107,491.72	\$4,254,833.33	\$7,107,491.72	\$4,254,833.33	\$11,362,325.06
17-18				\$5,389,847.89	\$6,011,833.33	\$5,389,847.89	\$6,011,833.33	\$11,401,681.22
Total	\$1,158,000	\$3,534,000	\$6,801,742	\$51,597,199.49	\$21,110,833.33	\$56,289,199.49	\$27,912,575.33	\$84,201,774.82
<i>Principal</i>				<i>40,544,119.38</i>				
<i>Interest</i>				<i>11,053,080.12</i>				

Notes:

- 1 Financing Structure: One tax-exempt lease schedule to be funded by a third party lessor and deposit into escrow; payments due monthly; Sheriff's Department to disburse payments as they become due
- 2 Projected purchase costs financed: \$40,544,119
- 3 New lease: assuming funding date in June 15, at 6.0% APR over a term of seven years